



Department of Homeland Security – US Coast Guard
Notification of Findings and Recommendations (NFR)
Fiscal Year Ended September 30, 2005

Location/Office: Headquarters	Finding number: CG 05-011
Audit Area: Environmental Liabilities	W/P Reference: N-30, N-206
Date Provided to Management: August 4, 2005	Date Response Due: August 11, 2005
Title: Environmental Liabilities – Shore Facilities	Severity: 3 (Low 1 – High 5)

Background: At June 30, 2005, Coast Guard's estimate of the FY 2005 environmental liability was \$117 million. Approximately \$107.5 million or 92 percent was associated with 220 shore facility projects.

Condition: Controls over the Coast Guard's process for calculating its environmental liability associated with shore facility projects were not fully effective. Specifically:

- Coast Guard performed management reviews of only the estimates and supporting documentation for the 19 shore facility projects selected by the auditors in FY 2005.
- Coast Guard did not reconcile the "FY05 Obligated" amount recorded in Shore Asset Management (SAM) (\$284,000 for 8 projects) with the obligation and expenditure amounts recorded in the general ledger to determine costs incurred and costs to be included in the liability amount as of June 30, 2005. Coast Guard treats the obligation amount recorded in SAM as an expenditure for purposes of determining the estimated liability.

Criteria: The *Federal Managers' Financial Integrity Act of 1982* requires "internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General."

GAO's *Standards for Internal Control in the Federal Government* defines internal control as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations." In addition, the *Standards* state that management is responsible for developing and documenting detailed policies, procedures, and practices that fit their agency's operations and as part of their monitoring of internal control, management must continue to maintain these policies and procedures and assess the quality of performance over time. The standards further states "internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Cause: Coast Guard does not have policies and procedures in place to review its shore facility project estimates that provide reasonable coverage of the entire population in order to support its assertion that the shore facilities environmental liability estimate is complete, accurate, and appropriately valued. Coast Guard does not have policies and procedures in place to verify actual current year obligations or expenditures, which affect the total liability for each project.

Effect: The environmental liability associated with shore facility projects could potentially be misstated.

Recommendations: We recommend that the Coast Guard:

1. Develop and implement policies and procedures, as appropriate, to establish a methodology to



United States Coast Guard
Fiscal Year 2005 Audit
Notification of Findings and Recommendations (NFR)

review shore facility project estimates independent of estimates selected for audit.

2. Review the current liability estimates and determine if estimates have been understated through subtraction of obligations incurred and take appropriate corrective action to the 9/30/05 environmental liability, to include reconciling any reductions in the liability to the financial data recorded in the general ledger.

Management Response:

KPMG policy requires that we obtain your response to this notification of finding and recommendation in writing. As such, please indicate your response by checking the appropriate box below and providing the appropriate supporting documentation to KPMG within five business days from the date of this notification. Your written response will be considered when preparing the draft consolidated audit report.

- ☒ Management concurs with the Notification of Finding and Recommendation and has provided a corrective action plan, with milestone dates, developed to address the condition in the space provided below or as an attachment to this document. (Note: Responses should not be delayed until plans are finalized. If plans are not complete, specify a completion date when forwarding your responses.)
- ☐ Management does not concur with the Notification of Finding and Recommendation and provided further detail supporting our position in the space provided below or as an attachment to this document.
- ☐ Corrective action will be taken and completed in current fiscal year (check box if "yes").

General Comments

1. Coast Guard does not have formal policies and procedures to review shore facility project estimates to determine that they are appropriately valued. However, CG-443 does review and compare all estimates against descriptive project information in the SAM database. The CEUs provide project information such as scope, status, date of last update and other issues in a long text data field in SAM. This information is reviewed against annual project estimates for all projects to determine if estimates are "reasonable" against the description provided. If estimates are judged to be especially high or low the CEU is contacted for clarification and/or requested to adjust the estimate.

2. Coast Guard does not have policies and procedures in place to verify actual current year obligations or expenditures which affect the total liability for each project. Existing Coast Guard systems do not facilitate the exchange of data between the SAM and the accounting system, making this recommendation very difficult to implement. Implementation will require double entry of accounting data in the Coast Guard's accounting and SAM systems. Currently, CEU's enter the amount of the obligations in SAM at the time of contract award. Obligations and expenditures are entered in CG's accounting system which is not linked to the SAM system.

Corrective Action Planned

1. By Sep 05, CG-443 proposes to formalize existing informal procedures into a policy to perform a quarterly review of 10% of the projects with an outstanding environmental liability. The review will consist of comparing the long text field information in SAM with project estimates. Projects with estimates that are not justified by the text information will be referred to the responsible project manager for corrective action. This would result in a total review of all projects every 2.5 years.

Currently there are about 220 projects in SAM with environmental liabilities. However with the planned additions of the lighthouses/light stations, SAFR and other new projects, we expect the total



United States Coast Guard
Fiscal Year 2005 Audit
Notification of Findings and Recommendations (NFR)

to grow to approximately 1,000. The annual review of all 1,000 projects would require near an FTE to accomplish. CG-443 believes a 10% sampling approach would result in near equal results with much less resources.

2. Due to the lack of interoperability between SAM and accounting systems, CG-443 proposes to implement policies and procedures to manually verify current year obligations or expenditures against SAM projects. The procedure will be for CEU's to include the appropriate SAM project number in the Project ID field of the accounting system for all EC&R transactions. This will allow for manually matching obligations and expenditures to SAM projects.

Art Walz
Acting Chief, Office of Logistics (CG-44)
11 AUG 05

KPMG Response, if Necessary: *(See GAGAS paragraph 5.30)*

1. _____
Bruce Antiporowich
Senior Manager, KPMG LLP

Date Provided to Management

2. _____
CAPT David Hill
Chief, Office of Financial Policy

Date Response Received from Management



United States Coast Guard
Fiscal Year 2005 Audit

Notification of Findings and Recommendations (NFR)

to grow to approximately 1,000. The annual review of all 1,000 projects would require near an FTE to accomplish. CG-443 believes a 10% sampling approach would result in near equal results with much less resources.

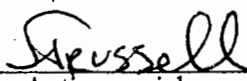
2. Due to the lack of interoperability between SAM and accounting systems, CG-443 proposes to implement policies and procedures to manually verify current year obligations or expenditures against SAM projects. The procedure will be for CEU's to include the appropriate SAM project number in the Project ID field of the accounting system for all EC&R transactions. This will allow for manually matching obligations and expenditures to SAM projects.

Art Walz
Acting Chief, Office of Logistics (CG-44)
11 AUG 05

KPMG Response, if Necessary: (See GAGAS paragraph 5.30)

Regarding corrective action #1, CG should assess the amount of time required for reviews and consider increasing the number of projects reviewed annually as implementation commences. CG should also assess the information in SAM to determine that it is consistent and accurate to supporting documentation.

Regarding corrective action #2, detailed procedures should be implemented to verify both obligations and expenditures.

1. 
for Bruce Antiporowich
Senior Manager, KPMG LLP

2. 
For CAPT David Hill
Chief, Office of Financial Policy

Date Provided to Management

8/12/05
Date Response Received from Management